

# Inspector General

United States  
Department of Defense



Contractor-Invoiced Costs Were Accurate, but DoD  
Did Not Adequately Track Funding

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## Acronyms and Abbreviations

COR	Contracting Officer's Representative
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
FAR	Federal Acquisition Regulation
FMR	Financial Management Regulation
MERHC	Medicare-Eligible Retiree Health Care
O&M	Operation and Maintenance
TMA	TRICARE Management Activity
USAMRAA	U.S. Army Medical Research Acquisition Activity



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
4800 MARK CENTER DRIVE  
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March 08, 2012

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
DIRECTOR, TRICARE MANAGEMENT ACTIVITY PAYMENT  
OFFICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Contractor-Invoiced Costs Were Accurate, but DoD Did Not Adequately Track  
Funding (Report No. DODIG-2012-062)

We are providing this report for your review and comment. The contractor invoiced costs that were generally accurate, allowable, and allocable. The TRICARE Management Activity and the U.S. Army Medical Research Acquisition Activity did not adequately track and deobligate funding on one task order resulting in \$521,889 in funds unavailable for other purposes. We considered management comments on a draft of this report when preparing the final report.

The Assistant Secretary of Defense (Health Affairs) and the United States Army Medical Command/Office of the Surgeon General comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).

*Jacqueline L. Wicecarver*  
Jacqueline L. Wicecarver  
Assistant Inspector General  
Acquisition and Contract Management





# Results in Brief: Contractor-Invoiced Costs Were Accurate, but DoD Did Not Adequately Track Funding

## What We Did

We determined whether costs on contractor invoices for services performed for DoD were accurate, allowable, and allocable. In addition, we determined whether U.S. Army Medical Research Acquisition Activity (USAMRAA) officials and TRICARE Management Activity (TMA) officials adequately tracked funding on one task order. We reviewed 251 invoices, totaling \$32.9 million, on 3 task orders, valued at \$64 million.

## What We Found

The contractor for the three task orders invoiced costs that were generally accurate, allowable, and allocable. Specifically, the contractor:

- appropriately invoiced \$9.4 million on 94 invoices reviewed;
- generally complied with its time and attendance policy for 1,156 time sheets;
- billed for labor categories and rates established in the task order or base contract for 111 labor invoices, totaling \$19.5 million; and
- hired employees that met the requirements of their labor categories for 15 contractor employees of the 19 in our sample.

The contractor's invoices included minor unallowable costs of \$925, which have been credited to the Government. The contractor complied with Federal Acquisition Regulation Subpart 31.2, "Contracts with Commercial Organizations," which defines accurate, allowable, and allocable costs. As a result, the Defense Finance and Accounting Service and the TMA Payment Office paid the contractor for appropriate costs. In addition, Defense Finance and Accounting Service and the TMA Payment

Office paid 244 invoices, totaling \$32.6 million, in accordance with the Prompt Payment Act.

USAMRAA and TMA officials did not adequately track and deobligate funding on one task order because they were unaware of whose responsibility it was to track funding. As a result, \$521,889 in funds were unavailable for other purposes.

## What We Recommend

We recommend that the Director, TMA, coordinate with the Director, USAMRAA, to:

- determine how much of the \$196,543 in Operation and Maintenance funds should remain on task order 6 for final indirect rate adjustments and deobligate the remaining funds;
- determine how much of the \$325,346 in DoD Medicare-Eligible Retiree Health Care Funds should remain on task order 6 for final indirect rate adjustments and deobligate the remaining funds; and
- establish guidance that delineates the roles and responsibilities of the funds holder and contracting activity in tracking funds.

## Management Comments and Our Response

The Assistant Secretary of Defense (Health Affairs) and United States Army Medical Command/Office of the Surgeon General agreed with our recommendations and deobligated \$510,095 in funds. Please see the recommendations table on the back of this page.

## Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, TRICARE Management Activity		B
Director, U.S. Army Medical Research Acquisition Activity		B

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# Introduction

## Objective

The audit objective was to determine whether costs on contractor invoices for services performed for DoD were accurate, allowable, and allocable. See Appendix A for a discussion of the scope and methodology and Appendix B for prior coverage related to the objectives.

## Background

The Government Accountability Office and DoD Inspector General have identified DoD contract management as a high-risk area since the 1990s. DoD annually spends \$400 billion on contracts for goods and services and expects to obligate \$2 trillion from FY 2011 through FY 2015. In addition, recent statutory requirements stressed the need for improvements in the integrity of the Government's payments and efficiency of its programs and activities. Specifically, "The Accountable Government Initiative: The Obama Administration's Effort to Cut Waste and Modernize Government," published by the White House on July 22, 2010, states:

Each year, the federal government wastes billions of American taxpayers' dollars on improper payments to individuals, organizations, and contractors. These are payments made in the wrong amount, to the wrong person, or for the wrong reason. In 2009, improper payments totaled nearly \$110 billion, the highest amount to date.

The President's goal is to reduce improper payments by \$50 billion by 2012. Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," directed Federal agencies to take specific actions to significantly reduce improper payments. Determining whether invoiced costs are accurate, allowable, and allocable is essential to identifying improper payments.

## ***Task Orders and Invoices Reviewed***

We nonstatistically selected 3 task orders, valued at \$64.0 million. We reviewed 251 invoices, totaling \$32.9 million.<sup>1</sup> DoD awarded three task orders to Apptis, Inc.<sup>2</sup>

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<sup>1</sup> For task order 6, we reviewed 75 invoices, totaling \$9.1 million, for all work performed from October 1, 2008, through December 31, 2010. For task order 55, we reviewed 33 invoices, totaling \$8.2 million, for all work performed from October 1, 2008, through February 28, 2011. For task order 73, we reviewed all 143 invoices, totaling \$15.6 million, for all work performed from February 28, 2010, through February 27, 2011.

<sup>2</sup> On October 5, 2001, DoD awarded base contract DCA200-02-D-5000 to SETA Corporation. On December 15, 2003, DoD awarded base contract W74V8H-04-D-0023 to PlanetGov, Inc. In 2004, PlanetGov, Inc. acquired SETA Corporation and changed its name to Apptis, Inc. In April 2011, URS Corporation announced that it would acquire Apptis, Inc.



We determined whether:

- costs on contractor invoices for services performed were accurate, allowable, and allocable (Finding A);
- contractor employee time sheets complied with the contractor's time and attendance policy (Finding A);
- labor categories and rates, calculations, and amounts were correct (Finding A);
- a sample of contractor personnel met the qualifications of their assigned labor category (Finding A); and
- DoD contracting officials deobligated excess funds once the period of performance was complete (Finding B).

### **Task Order 6**

In September 2008, the United States Army Medical Research Acquisition Activity (USAMRAA) awarded task order 6, a cost-plus-fixed-fee task order, against contract W74V8H-04-D-0023 to provide support for the TRICARE Management Activity (TMA). The period of performance is from October 1, 2008, through September 30, 2013. As of September 28, 2011, the task order value including options was \$21.4 million.

We obtained 75 invoices, totaling \$9.1 million, for all work performed from October 1, 2008, through December 31, 2010. We reviewed the 75 invoices for mathematical correctness. Of the 75 invoices, 27 invoices, totaling \$8.4 million, were for labor. We reviewed all 27 labor invoices for accuracy of labor categories and labor rates. In addition, from these 75 invoices, we reviewed a nonstatistical sample of 27 invoices (a mix of invoices for labor, travel, and other direct costs), totaling \$3.2 million, for accuracy, allowability, and allocability of specific costs.

### **Task Order 55**

In October 2008, the Defense Information Technology Contracting Office awarded task order 55, a time-and-materials task order, against contract DCA200-02-D-5000 to provide support for the Naval Circuit Management Office. The period of performance was October 1, 2008, through September 30, 2011. As of September 28, 2011, the task order value including options was \$14.2 million.

We obtained 33 invoices, totaling \$8.2 million, for all work performed from October 1, 2008, through February 28, 2011. We reviewed 32 invoices for accuracy of labor categories and labor rates and reviewed all 33 invoices for mathematical correctness. In addition, we reviewed a nonstatistical sample of 15 invoices, totaling \$3.5 million, of the 33 invoices for accuracy, allowability, and allocability of specific costs.

### **Task Order 73**

In February 2010, the Defense Information Technology Contracting Office awarded task order 73, a time-and-materials and firm-fixed-price type task order, against contract DCA200-02-D-5000 to provide support for the Defense Information Systems Agency. Approximately 81.1 percent of the work was firm-fixed-price. The period of performance was from February 28, 2010, through February 27, 2012. As of September 28, 2011, the task order value including options was \$28.4 million.

We obtained 143 invoices, totaling \$15.6 million, for all work performed from February 28, 2010, through February 27, 2011. Of the 143 invoices, 91 invoices, totaling \$12.7 million, were firm-fixed-price and 52 invoices, totaling \$2.9 million, were time-and-materials. We reviewed the 91 firm-fixed-price invoices for correctness of the payment amount. We reviewed the 52 time-and-materials invoices for accuracy of labor categories and labor rates; mathematical correctness; and accuracy, allowability, and allocability of specific costs.

### ***Wide Area Workflow***

Wide Area Workflow is a secure web-based system for electronic invoicing, receipt, and acceptance. It enables authorized Defense contractors to create invoices and receiving reports and access contract-related documents. Wide Area Workflow eliminates paper from the receipt and acceptance process of the DoD contracting lifecycle, increases data accuracy, and reduces the risk of lost documents. According to data in Wide Area Workflow, the Defense Contract Audit Agency approved Apptis, Inc. for direct billing. Direct billing routes payment requests directly to the payment office. Defense Contract Audit Agency performs an audit only on the final payment.

### ***Defense Finance and Accounting Service***

The Defense Finance and Accounting Service (DFAS) is the finance and accounting organization for DoD. According to the DFAS, “Contractor and Vendor Payment Information Guidebook,” DFAS Accounts Payable Operations is responsible for entitlement determination and payment to all businesses that have provided goods or services to DoD. In FY 2010, DFAS Accounts Payable Operations paid \$384.1 billion in invoices. DFAS processed the invoice payments for task orders 55 and 73 using Wide Area Workflow.

### ***TRICARE Management Activity***

TMA, established May 31, 2001, is a DoD field activity of the Under Secretary of Defense for Personnel and Readiness and operates under the authority, direction, and control of the Assistant Secretary of Defense for Health Affairs. TMA is responsible for managing the TRICARE health care program for active duty members and their families, retired Service members and their families, National Guard/Reserve members and their families, survivors, and others entitled to DoD medical care. The mission of TMA is to:

- manage TRICARE,
- manage and execute the Defense Health Program appropriation and the DoD Unified Medical Program, and
- support the Uniformed Services in implementing the TRICARE Program and the Civilian Health and Medical Program of the Uniformed Services.

TMA has operational offices in Falls Church, Virginia, and Aurora, Colorado. Additionally, TMA is organized into six geographic health services regions, each with its own TRICARE regional office. The contracting officer’s representative (COR) for task order 6 is in the Falls Church, Virginia, office, and the TMA Payment Office in Aurora, Colorado, paid task order 6 invoices.

### ***TMA Payment Office***

The TMA Payment Office in Aurora, Colorado, processed the invoice payments for task order 6 and conducted secondary reviews of the invoices prior to payment. The TMA Payment Office does not use Wide Area Workflow. Instead, the contractor e-mails invoices and related documentation to an e-mail inbox that is accessible to the COR and anyone involved in the invoice review process.

### **Review of Internal Controls**

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We did not identify internal control weaknesses in the contractor’s invoicing process for the 251 invoices reviewed. However, we identified an internal control weakness in the USAMRAA contracting office and TMA fund management process. Neither USAMRAA officials nor TMA officials monitored the funds obligated for task order 6, resulting in expired funds remaining on the task order and unavailable for new obligations. We will provide a copy of the report to the senior officials responsible for internal controls at USAMRAA and TMA.

## **Finding A. Contractor-Invoiced Costs Were Generally Accurate, Allowable, and Allocable**

The contractor for contract DCA200-02-D-5000, task orders 55 and 73, and for contract W74V8H-04-D-0023, task order 6, invoiced costs that were generally accurate, allowable, and allocable. Specifically, the contractor:

- appropriately invoiced \$9.4 million in direct labor charges and other direct costs on 94 invoices reviewed;
- generally complied with its time and attendance policy for 1,156 time sheets;
- billed for labor categories and rates established in the task order or base contract for 111 labor invoices, totaling \$19.5 million, for three task orders; and
- hired employees that met the requirements of their labor categories for 15 contractor employees of the 19 in our sample.

The contractor's invoices included minor unallowable costs of \$925, which have been credited to the Government. Generally, the contractor complied with Federal Acquisition Regulation (FAR) Subpart 31.2, "Contracts with Commercial Organizations," which defines accurate, allowable, and allocable costs. As a result, DFAS and the TMA Payment Office paid the contractor for appropriate costs. In addition, DFAS and the TMA Payment Office paid 244 invoices, totaling \$32.6 million, in accordance with the Prompt Payment Act.

### **Federal Acquisition Regulation**

FAR subpart 31.2 provides regulations for determining whether a cost is allowable, reasonable, and allocable.

FAR 31.201-2(d), "Determining allowability," states:

A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

FAR 31.201-3(a), "Determining reasonableness," states:

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business . . . . No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.

FAR 31.201-4, "Determining allocability," states, "A cost is allocable to a Government contract if it—(a) is incurred specifically for the contract . . ."

## Invoiced Costs for Direct Labor and Other Direct Costs Were Generally Accurate, Allowable, and Allocable

The contractor for task orders 55, 73, and 6 invoiced costs that were generally accurate, allowable, and allocable. We reviewed 94 invoices, totaling \$9.4 million, that included \$6.36 million in direct labor charges and \$3.07 million for other direct costs. The contractor only charged \$925 in costs that were not accurate, allowable, and allocable on 4 invoices,<sup>3</sup> totaling \$1.2 million, of the 94 invoices reviewed. A summary of the invoices reviewed for each task order is shown in Table 1.

**Table 1. Summary of Invoiced Costs Reviewed**

	<b>Task Order 55</b>	<b>Task Order 73</b>	<b>Task Order 6</b>	<b>Total</b>
<b>No. of Invoices</b>	<b>15</b>	<b>52</b>	<b>27</b>	<b>94</b>
Direct Labor	\$3,468,680	\$2,415,807	\$ 471,726	\$6,356,213
Other Direct Costs	61,999	278,296	2,725,841	3,066,136
<b>Total Direct Costs</b>	<b>\$3,530,679</b>	<b>\$2,694,103</b>	<b>\$3,197,567</b>	<b>\$9,422,349</b>

The invoice costs we reviewed for task orders 73 and 6 contained no errors. The contractor billed costs on those invoices that were reasonable, fully supported by receipts, and for work associated with that specific task order.

However, 4 invoices<sup>2</sup> of the 15 reviewed for task order 55 contained \$925 in charging errors, which included \$807 in direct labor overcharges and \$118 in unallowable other direct costs.

The contractor overcharged DoD by \$363 in direct labor costs on the invoice for work performed in October 2009.<sup>2</sup> An employee allocated hours on his time sheet to two different labor categories each with a different corresponding rate. However, the contractor invoiced all of the employees' monthly hours to just one labor category and charged the incorrect labor rate for that labor category, resulting in \$363 in direct labor overcharges.

The contractor attempted to correct this error on the invoice for work performed in June 2010 but created an additional overcharge of \$444. The contractor created this second error by removing the hours that it included in the incorrect labor category but removing the hours at a lower labor rate than what was originally charged. As a result of the adjustment, the contractor created an additional overcharge of \$444. Therefore, the total in direct labor overcharges is \$807.

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<sup>3</sup> To verify costs on 1 of the 94 invoices, we reviewed an invoice in addition to those in our sample. The additional invoice was for work the contractor performed in October 2009. We limited our review of this additional invoice to the hours worked by 1 contractor employee; therefore, we did not include this invoice in the 94 invoices, totaling \$9.4 million. See Appendix A for a detailed discussion of our scope and methodology.

In addition, \$118 in other direct costs were unallowable:

- \$30 in local mileage overcharges,
- \$53 for a hotel pet fee, and
- \$35 for a credit card annual fee.

## **Employee Time Sheets Complied With the Contractor's Time and Attendance Policy**

The contractor's employees generally complied with the contractor's time and attendance policy. For the 3 task orders, we reviewed 1,156 time sheets for work performed from February 2010 through February 2011. The contractor's time and attendance policy, "HR 112 Recording Time and Labor," April 29, 2009, requires its employees to sign their own time sheets each day and for the supervisor to sign on the employee's behalf if the employee is absent. The employee is supposed to sign their time sheet upon return to the office. In addition, the policy requires supervisors to approve the time sheets by the first business day after the end of the pay period.

Employees signed their own time sheets for 1,130 time sheets of 1,156 reviewed. Although, the employees did not sign their own time sheets for 26 time sheets of the 1,156 reviewed, we considered this to be immaterial.

Supervisors signed 11 time sheets of the 1,156 reviewed before the employees signed them. For 9 of these 11 time sheets, the contractor adequately tracked the time sheet revisions and documented legitimate reasons for the employees being unavailable to sign their time sheets. In addition, for 10 time sheets of the 1,156 reviewed, 10 or more days elapsed between the employee signing the time sheets and the supervisors approving them. Only 1 time sheet of the 1,156 reviewed was not approved as of June 20, 2011, for a total of 164 elapsed days between the date the timesheet was signed and June 20, 2011. However, we considered this to be immaterial.

## **Labor Categories and Rates Invoiced Were Appropriate**

The contractor's invoices included labor categories and rates that were generally appropriate. For the 111 invoices for labor, totaling \$19.5 million, we compared the labor categories and rates the contractor invoiced to those in the task order and to those in the base contract (see Table 2).

**Table 2. Summary of Labor Invoices Reviewed**

	<b>Task Order 55</b>	<b>Task Order 73</b>	<b>Task Order 6</b>	<b>Total</b>
No. of Invoices	32	52	27	111
Direct Labor	\$7,312,791	\$2,415,807	\$1,061,272	\$10,789,870
Total Invoiced	\$8,173,425	\$2,946,816	\$8,429,102	\$19,549,343

All of the labor categories and rates that the contractor invoiced for task orders 55 and 73 were correct.



However, for task order 6, the contractor included labor categories on its invoices that were not included in the task order:

- six labor categories invoiced over a five-month period,
- one labor category invoiced over a two-month period, and
- two labor categories invoiced over a different two-month period.

Although the labor categories were not included in the task order, they were included in the base contract. This is permitted by FAR Clause 52.216-18, “Ordering,” which states that if there is a conflict between the task order and the base contract, the base contract takes precedence. The contracting officer incorporated this clause into the base contract.

Task order 6 was cost-plus-fixed-fee. Therefore, the rates had to represent the contractor’s actual costs. We determined the contractor employees’ salary rate by dividing the employees’ bi-monthly salaries by the total number of hours on the time sheet for the pay period. We then compared that rate to the rate charged on the invoices. The invoiced rates matched the employees’ salary rates; therefore, the contractor charged accurate labor rates on task order 6.

## **Four Contractor Employees Did Not Initially Meet Minimum Labor Category Requirements**

Although 15 contractor employees of the 19 in our sample met the requirements of their labor categories, 4 contractor employees did not initially meet minimum labor category requirements. The contractor assigned 120 employees to the 3 task orders. Our sample included:

- 4 contractor employees of 16 assigned to task order 6,
- 5 contractor employees of 29 assigned to task order 55, and
- 10 contractor employees of 75 assigned to task order 73.

Task order 6 did not identify specific requirements for each labor category. However, the four contractor employees had experience commensurate with the labor descriptions. The ten contractor employees from task order 73 met the education and experience requirements for their labor categories.

Of the five contractor employees from task order 55, four employees did not meet the minimum education requirements of their labor category; however, in December 2010, the Defense Information Technology Contracting Office modified the base contract to include an updated qualifications list. The updated list allowed the contractor to use its own discretion to use a combination of experience and education. Although these four contractor employees did not initially meet the education requirements of their labor categories, they had extensive experience with the type of work they performed, the COR and customers did not identify any problems with the contractor personnel’s performance, and these employees met the updated labor qualifications that the contracting officer added to the base contract in December 2010.

## **DFAS and the TMA Payment Office Paid the Contractor for Appropriate Costs**

DFAS and the TMA Payment Office paid the contractor \$9.4 million in costs that were generally accurate, allowable, and allocable. In addition, DFAS and the TMA Payment Office paid 244 invoices, totaling \$32.6 million, in accordance with the Prompt Payment Act.<sup>4</sup>

DFAS paid all 176 invoices reviewed, totaling \$23.8 million, on task orders 55 and 73, in accordance with the Prompt Payment Act. Payments included interest of \$23 for late payments and authorized discounts of \$24,561. Although DFAS paid the incorrect amount on five invoices, the overpayment was only \$992. We notified DFAS about the inaccurate payments; however, we did not make a recommendation because we did not deem the amount to be material.

Of the 75 invoices reviewed, totaling \$9.1 million on task order 6, the TMA Payment Office paid 68 invoices, totaling \$8.8 million, in accordance with the Prompt Payment Act, which included interest of \$850 for late payments and authorized discounts of \$3,859. The TMA Payment Office paid the other seven invoices late but did not pay any interest. The TMA Payment Office performed its own analysis and issued an interest payment of approximately \$449 to the contractor on September 23, 2011; therefore, we did not make a recommendation.

## **Management Actions**

Of the 15 invoices reviewed for task order 55, 4 invoices contained minor errors, totaling \$925. The contractor issued credits to Naval Circuit Management Office for the overcharges. Although the TMA Payment Office did not originally pay interest on seven invoices that it paid late for task order 6, the TMA Payment Office later paid the contractor \$449 in interest. Therefore, we did not make a recommendation.

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<sup>4</sup> Public Law 97-177, “The Prompt Payment Act,” requires Federal agencies to pay their bills in a timely manner, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date.

## **Finding B. USAMRAA and TMA Officials Did Not Adequately Track Funding on Task Order 6**

USAMRAA contracting officials, the TMA COR, and TMA Payment Office officials did not adequately track funding on task order 6 because they were unaware of whose responsibility it was to do so. As a result, TMA and USAMRAA allowed \$196,543 in FY 2009 and FY 2010 Defense Health Program Operation and Maintenance (O&M) funds to expire because it left the funds on the task order after the period of performance ended. In addition, TMA and USAMRAA officials allowed \$325,346 in DoD Medicare-Eligible Retiree Health Care (MERHC) funds to remain on the task order after the period of performance ended. TMA and USAMRAA officials should deobligate the O&M and MERHC funds in excess of estimated final indirect rate adjustments.<sup>5</sup> The MERHC funds may then be used for other projects.

### **Funds Remaining on the Task Order**

USAMRAA contracting officials obligated FY 2009 and FY 2010 Defense Health Program O&M funds and no-year MERHC funds on task order 6. Specifically, the O&M funds were Defense Health Program Managed Care Support/Civilian Health and Medical Program of the Uniformed Services funds.

DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” (FMR) volume 2A, chapter 1, and DFAS Manual 7097.01, “Financial Management Departmental Reporting Manual for Office of the Secretary of Defense (Treasury Index 97) Appropriations,” state that DoD can obligate O&M funds for 1 year. After 1 year, the funds expire and DoD cannot use the funds for new obligations. Additionally, FMR, volume 3, chapter 10, “Accounting Requirements for Expired and Closed Accounts,” states that expired funds are available for recording, adjusting, and liquidating obligations properly chargeable to that account for 5 years.

USAMRAA contracting officials obligated funds provided by TMA over three periods of performance. The periods of performance correspond to the fiscal year. The relevant periods of performance were the:

- Transition-In period, from October 1, 2008, through February 28, 2009;
- Base-Year period, from March 1, 2009, through September 30, 2009; and
- Option-1 period, from October 1, 2009, through September 30, 2010.

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<sup>5</sup> FAR 2.101, “Definitions,” states that the “final indirect cost rate” is “. . . the indirect cost rate established and agreed upon by the Government and the contractor as not subject to change. It is usually established after the close of the contractor’s fiscal year (unless the parties decide upon a different period) to which it applies.”

USAMRAA contracting officials, on behalf of TMA, obligated the FY 2009 O&M funds during the Transition-In and Base-Year periods and obligated the FY 2010 O&M funds during the Option-1 period.

The MERHC funds are no-year funds, as described in DFAS Manual 7097.01, chapters 1-1 and 2-5472, “DoD Medicare-Eligible Retiree Health Care Fund.” Therefore, DoD can use the funds for new obligations without fiscal year limitations. USAMRAA contracting officials, on behalf of TMA, obligated MERHC funds during the Transition-In, Base-Year, and Option-1 periods. Table 3 shows the funds remaining on the task order.

**Table 3. Funds Remaining on Task Order 6**

<b>Fiscal Year Obligated</b>	<b>Fiscal Year of Appropriation</b>	<b>Fund Type</b>	<b>Balance Remaining</b>
2009	2009	O&M	\$ 94,547
2009	No Year	MERHC	158,931
2010	2010	O&M	101,996
2010	No Year	MERHC	166,415
<b>Total Funds Remaining</b>			<b>\$521,889</b>

We discussed the need to deobligate funds with USAMRAA contracting officials. They stated that they cannot deobligate the entire \$521,889 in funds until the Defense Contract Audit Agency approves the contractor’s final indirect rates for FY 2009 and FY 2010. FAR 42.705, “Final indirect cost rates,” requires the contractor to submit a final invoice or voucher reflecting the settled amount and rates within 120 days of Defense Contract Audit Agency finalizing the indirect cost rates for each fiscal year. Therefore, USAMRAA contracting officials and TMA Payment Office officials should coordinate with the contractor to determine how much of the funds remaining on task order 6 will be needed for final indirect rate adjustments. The officials should then deobligate the excess funds. See Appendix C for a summary of the potential monetary benefits.

## **DoD Officials Were Unsure of Whose Responsibility it Was to Track Funds on Task Order 6**

The USAMRAA contracting office became aware of the excess funds as a result of our audit; however, USAMRAA contracting officials, the TMA COR, and TMA Payment

*USAMRAA contracting officials, the TMA COR, and TMA Payment Office officials were unclear about who was responsible for tracking funds on task order 6.*

Office officials were unclear about who was responsible for tracking funds on task order 6.

The TMA COR stated that she believed tracking funds was “usually done” by the TMA Payment Office “since they provide the funding.”

An accountant from the TMA Payment Office stated, “from what I can tell, monitoring is a joint responsibility of the usual stakeholders: Contracting Office, Contracting Officer’s

Representative, the budget/accounting/paying office, and the contractor.” In addition, she stated that from her office’s perspective, “. . . the excess amounts for this contract are immaterial compared to all of TRICARE’s undelivered orders as a whole . . . .”

A USAMRAA procurement analyst stated that monitoring funding levels was the responsibility of the Defense Contract Audit Agency. However, she referred to the administrative contracting office, which is the Defense Contract Management Agency (DCMA), Manassas, Virginia (DCMA-Manassas).

The USAMRAA contract specialist stated that monitoring the funds is a shared responsibility between the requiring activity, the COR, DCMA-Manassas, USAMRAA, and the comptroller. The contract specialist also stated that the administrative contracting office normally identifies excess funds for deobligation.

A DCMA-Manassas official stated that DCMA-Manassas had no record of task order 6 in its database and that the task order should have been in the database. In addition, the DCMA-Manassas official stated that the contracting officer had not delegated the responsibility of monitoring funding during the task order’s period of performance. The DCMA-Manassas official stated that DCMA-Manassas does not normally perform funding reviews until the task order has ended.

The USAMRAA contracting officer who awarded the initial task order stated, “Excess funds are typically not removed until the final audits are completed – cost incurred and indirect rate finalization, which can take years after the last day of performance.” He further stated, “We rely on the Program Office, Defense Contract Audit Agency/DCMA, and DFAS to provide advice on excess funds. In many cases, DCMA simply forwards us a copy of their deobligation modification.”

The USAMRAA contracting officer who awarded modification 8 of the task order stated in an e-mail:

The monitoring of excess funding is normally performed by the administering contracting office. Accordingly, excess funding is typically monitored, reconciled, and recommended for deobligation in response to notification received from the following sources:

1. Administering Contract Office
2. Defense Finance Accounting Office
3. Program Budget Analyst
4. Contract/Task Order Closeout Contracting Officer

Neither the base contract nor the task order specified whose responsibility it was to track funding.

FAR 42.302(a)(70), “Contract administration functions,” states that the contracting officer may delegate to the contract administration office the task of deobligating excess funds after final price determination. For task order 6, the administrative contracting office is DCMA-Manassas. Because the contracting officer did not delegate the task of

deobligating excess funds to DCMA-Manassas, this responsibility still resided with the contracting officer.

FMR, volume 3, chapter 8, paragraph 80401, “Triannual Reviews of Commitments, Obligations, Accounts Payable and Accounts Receivable,” states:

Fund Holders, with assistance from supporting accounting offices, shall review dormant commitments, unliquidated obligations, accounts payable and accounts receivable transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year.

FMR, volume 3, chapter 8, paragraph 80403, “Responsibilities of Accounting Offices,” requires accounting offices to identify unliquidated obligations to the funds holder and requires the funds holder to conduct reviews of unliquidated obligations. FMR, volume 3, chapter 8, paragraph 80404, “Responsibilities of Fund Holders,” requires the funds holder to do this because the funds holder initiates the actions that result in commitments and obligations and, therefore, is in the best position to determine the accuracy and the status of such transactions. In addition, FMR, volume 3, chapter 8, paragraph 80404(E), “Annual Review Requirements,” requires the funds holder to annually review all obligations, whether current or dormant, and initiate actions to resolve unliquidated obligations.

Based on the FMR, the funds holder, TMA, should track the funds it provides for obligation on task order 6 and determine how much of the obligations remain unused at the end of each fiscal quarter. TMA should provide this information to the TMA Payment Office and USAMRAA so the funds can be deobligated. However, USAMRAA and TMA Payment Office officials cannot deobligate all of the unused funds until the Defense Contract Audit Agency and contractor agree to a final price determination. Based on the FAR, the contracting office is responsible for deobligating excess funds after final price determination unless it assigns the function to another entity. Because it is unclear who is responsible for tracking funds, TMA and USAMRAA officials should establish guidance that delineates the roles and responsibilities of personnel.

## **Conclusion**

Because the USAMRAA contracting officials and the TMA Payment Office did not identify a responsible party to monitor the task order funding, funds were unnecessarily obligated and unavailable for other purposes. If the TMA Payment Office officials had deobligated unused O&M funds during the fiscal year of their appropriation, the funds could have been obligated on other contracts and task orders. However, DoD cannot use these funds for new obligations because the funds have expired. The FY 2009 O&M funds expired on September 30, 2009, and the FY 2010 O&M funds expired on September 30, 2010. However, the remaining MERHC funds (when deobligated) will be available for use on other contracts and task orders.



## **Recommendations, Management Comments, and Our Response**

**B. We recommend that the Director, TRICARE Management Activity, in coordination with the Director, U.S. Army Medical Research Acquisition Activity:**

**1. Determine how much of the \$196,543 in Defense Health Program Operation and Maintenance funds—\$94,547 in FY 2009 funds and \$101,996 in FY 2010 funds—should remain on task order 6 for final indirect rate adjustments and deobligate the remaining funds. The TRICARE Management Activity should use the remaining expired funds for recording, adjusting, and liquidating obligations properly chargeable to the Operation and Maintenance funds or remit the funds to the Department of the Treasury.**

### ***Assistant Secretary of Defense (Health Affairs) Comments***

The Assistant Secretary of Defense (Health Affairs) agreed, stating that the Army deobligated \$192,100—\$92,523 of FY 2009 funds and \$99,577 of FY 2010 funds.

### ***United States Army Medical Command/Office of the Surgeon General Comments***

The United States Army Medical Command/Office of the Surgeon General, Chief of Staff agreed, stating that the Army deobligated \$192,100—\$92,523 of FY 2009 funds and \$99,577 of FY 2010 funds—of the \$196,543 Defense Health Program Operations and Maintenance funds considered for deobligation, leaving the remainder for final indirect rate adjustments.

**2. Determine how much of the \$325,346 in DoD Medicare-Eligible Retiree Health Care Funds—\$158,931 obligated in FY 2009 and \$166,415 obligated in FY 2010—should remain on task order 6 for final indirect rate adjustment and deobligate the remaining funds for future use.**

### ***Assistant Secretary of Defense (Health Affairs) Comments***

The Assistant Secretary agreed, stating that the Army deobligated \$317,995 in funds.

### ***United States Army Medical Command/Office of the Surgeon General Comments***

The Chief of Staff agreed, stating that the Army deobligated \$317,995 of the \$325,346 DoD Medical-Eligible Retiree Health Care Funds considered for deobligations, leaving the remainder for final indirect rate adjustments.

**3. Establish guidance that delineates the roles and responsibilities of the funds holder and contracting activity in tracking funds.**

***Assistant Secretary of Defense (Health Affairs) Comments***

The Assistant Secretary agreed, stating that the TRICARE Management Activity has a Desktop Reference Guide that addresses the roles and responsibilities of the funds holder and the contracting activity when tracking funds. TRICARE Management Activity officials shared this information with contracting officials at USAMRAA.

***United States Army Medical Command/Office of the Surgeon General Comments***

The Chief of Staff agreed, stating that TRICARE Management Activity and U.S. Army Medical Research Acquisition Activity discussed and agreed to adhere to the roles and responsibilities of the funds holder and contracting activity outlined in the TRICARE Management Activity Desktop Reference Guide. He also stated that the Directors of the activities have agreed to jointly issue a memorandum to specify the roles and responsibilities of the funds holder and contracting activity by February 29, 2012.

***Our Response***

The comments from the Assistant Secretary of Defense (Health Affairs) and the United States Army Medical Command/Office of the Surgeon General, Chief of Staff, on all three recommendations were responsive, and no further comments are required.

## Appendix A. Scope and Methodology

We conducted this performance audit from October 2010 through December 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objective was to review contractor invoices for DoD service contracts to determine whether the costs were allowable, allocable, and accurate. To accomplish our objective, we focused on Defense contractors that:

- had service contracts,
- had contracts with a variety of contract types,
- obligated funds on these contracts in FY 2010, and
- provided services to a variety of Defense organizations.

We selected two indefinite-delivery, indefinite-quantity contracts awarded to URS Corporation,\* DCA200-02-D-5000 and W74V8H-04-D-0023. We reviewed two task orders awarded against DCA200-02-D-5000 and one task order awarded against W74V8H-04-D-0023. In total, we reviewed 251 invoices, totaling \$32.9 million, from three task orders, valued at \$64.0 million (see the table).

**Task Orders and Invoices Reviewed**

<b>Task Order</b>	<b>Contract Type</b>	<b>Award Date</b>	<b>Performance End Date</b>	<b>Amount</b>	<b>No. of Invoices</b>	<b>Invoice Amount</b>
55	T&M	10/1/08	9/30/11	\$14,219,812	33	\$ 8,174,071
73	T&M, FFP	2/26/10	2/27/12	28,371,095	143	15,661,409
6	CPFF	9/28/08	9/30/13	21,427,604	75	9,109,253
<b>Totals</b>				<b>\$64,018,510</b>	<b>251</b>	<b>\$32,944,733</b>

T&M                      Time-and-Materials  
FFP                       Firm-Fixed-Price  
CPFF                     Cost-Plus-Fixed-Fee

The Defense Information Technology Contracting Office awarded task orders 55 and 73 against contract DCA200-02-D-5000 on behalf of Naval Circuit Management Office and the Defense Information Systems Agency, respectively. USAMRAA awarded task order 6 against contract W74V8H-04-D-0023 on behalf of TMA. We visited the Defense Information Technology Contracting Office at Scott Air Force Base, Illinois, and the

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\* On October 5, 2001, DoD awarded base contract DCA200-02-D-5000 to SETA Corporation. On December 15, 2003, DoD awarded base contract W74V8H-04-D-0023 to PlanetGov, Inc. In 2004, PlanetGov, Inc., acquired SETA Corporation and changed its name to Apptis, Inc. In April 2011, URS Corporation announced that it would acquire Apptis, Inc.

USAMRAA contracting office at Fort Detrick, Maryland. We also visited the customers: Naval Circuit Management Office at the Norfolk Naval Station, Virginia; the Defense Information Systems Agency in Falls Church, Virginia; and TMA in Falls Church, Virginia. We visited the contractor at its headquarters in Chantilly, Virginia, and one of the contractor's offices in Falls Church, Virginia. We spoke with DFAS officials at Columbus, Ohio, and Indianapolis, Indiana.

## **Analysis Performed**

We determined whether costs on contractor invoices were accurate, allowable, and allocable. We interviewed contracting officers, the CORs, and contractor personnel including project controllers and managers. We also collected contract documentation, invoices, supporting documentation for the invoices, and surveillance documentation. We reviewed documentation dated from August 2001 through October 2011.

We reviewed 251 invoices, totaling \$32.9 million, and compared the DFAS and TMA Payment Office payment vouchers to the contractor invoices to determine whether the payment offices paid the correct amounts and paid them in accordance with the Prompt Payment Act. In addition, we determined how much interest DoD paid the contractor and how much DoD saved in authorized discounts. We also determined whether the invoices were mathematically accurate. Furthermore, we determined whether funds remained on task order 6 after the period of performance ended. We did not determine whether funds remained on task orders 55 and 73 because the type of funds obligated on those task orders existed without fiscal year limitation.

We reviewed a nonstatistical sample of 94 invoices, totaling \$9.4 million, out of 251 invoices, totaling \$32.9 million, for accuracy, allowability, and allocability of invoiced costs. For task orders 55 and 73, we reviewed invoices for work performed from February 2010 through February 2011. For task order 6, we reviewed invoices for work performed from February 2010 through December 2010. Specifically, we determined whether the:

- time sheets supported the direct labor hours;
- COR authorized travel and the contractor:
  - billed for travel expenses in accordance with per diem rates,
  - substantiated travel expenses with receipts, and
  - included reasonable mileage on travel expense reports;
- COR authorized materials and other direct cost purchases and whether the contractor had receipts for the purchases.

We reviewed 111 invoices, totaling \$19.5 million, to determine whether the contractor invoiced labor categories and rates in accordance with the task order and base contract. The remaining 140 invoices, totaling \$13.4 million, were either firm-fixed-price or did not include direct labor costs.

We reviewed a nonstatistical sample of 19 contractor personnel out of the approximately 120 contractor personnel assigned to the 3 task orders to determine whether they met the education and experience requirements of their labor categories.

We interviewed CORs and reviewed COR documentation to determine whether the CORs sufficiently reviewed invoices.

We reviewed a sample of 1,156 time sheets to determine whether the contractor completed time sheets in accordance with the company's time and attendance policy.

We reviewed public laws, the FAR, the FMR, DoD policies, and DFAS and contractor procedure manuals. Specifically, we reviewed Public Law 97-177; Public Law 111-204; and Prompt Payment; Final Rule, 5 Code of Federal Regulations sec. 1315 (1999), to determine whether DoD payment offices paid contractor invoices in accordance with the law.

We reviewed FAR subpart 31.2, and FAR Subpart 32.9, "Prompt Payment," to determine whether invoiced costs were accurate, allowable, and allocable. We reviewed FAR Subpart 4.8, "Government Contract Files," and FAR Subpart 15.4, "Contract Pricing," to determine whether the contracted rates were fair and reasonable.

We reviewed FAR 42.302 and FMR, volume 3, chapter 8, to determine the party responsible for tracking funds.

Additionally, we reviewed FMR, volume 2A, chapter 1, "General Information," and DFAS Manual 7097.01 to determine the type of funds obligated on the task order and the period of availability for new obligations of those funds. We also reviewed FMR, volume 3, chapter 10, "Accounting Requirements for Expired and Closed Accounts," for determining the expiration date of funds obligated on the task orders.

We reviewed the DFAS, "Contractor and Vendor Payment Information Guidebook," and "Computerized Accounts Payable System – Windows (CAPS-W) Manual," to examine DFAS payment processes' internal controls. In order to examine the contractor's internal controls related to allocating direct labor hours, we examined the contractor's, "HR 112 Recording Time and Labor," policy.

## **Use of Computer-Processed Data**

We used the Federal Procurement Data System, the Electronic Document Access System, and the Wide Area Workflow system to perform this audit. We used the computer-processed data from the Federal Procurement Data System and Electronic Document Access System to identify contract actions for review. We retrieved invoice data from Wide Area Workflow. To assess the accuracy of computer-processed data, we verified the Federal Procurement Data System, Electronic Document Access System, and Wide Area Workflow data against official records at visited contracting activities. We determined that data obtained through the Federal Procurement Data System, Electronic Document Access System, and Wide Area Workflow were sufficiently reliable to accomplish our audit objectives.

## **Appendix B. Prior Coverage**

During the last 5 years, the DoD Inspector General (DoD IG), the Army Audit Agency, and the Naval Audit Service have issued 10 reports discussing invoices and invoice payments. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil/>. Naval Audit Service reports are not available over the Internet.

### ***DoD IG***

DoD IG Report No. D-2011-080, “DoD and DoS [Department of State] Need Better Procedures to Monitor and Expend DoD Funds for the Afghan National Police Training Program,” July 7, 2011

DoD IG Report No. D-2011-047, “Improvements Needed in Contract Administration of the Subsistence Prime Vendor Contract for Afghanistan,” March 2, 2011

DoD IG Report No. D-2011-028, “Contract Oversight for the Broad Area Maritime Surveillance Contract Needs Improvement,” December 23, 2010

DoD IG Report No. D-2010-081, “Army Use of Time-and-Materials Contracts in Southwest Asia,” August 27, 2010

DoD IG Report No. D-2010-078, “Air Force Use of Time-and-Materials Contracts in Southwest Asia,” August 16, 2010

DoD IG Report No. D-2007-061, “Defense Finance and Accounting Service Dayton Network Compliance with the Prompt Payment Act,” March 1, 2007

DoD IG Report No. D-2007-041, “Navy General Fund Vendor Payments Processed by Defense Finance and Accounting Service,” January 2, 2007

### ***Army***

Army Audit Agency Report No. A-2008-0151-ALO, “Logistics Support Contract: Fort Carson, Colorado,” June 13, 2008

### ***Navy***

Naval Audit Service Report No. N2010-0057, “Navy Marine Corps Intranet Contract Invoice Management at Space and Naval Warfare Systems Command and Naval Facilities Engineering Command,” September 16, 2010

Naval Audit Service Report No. N2010-0042, “Service Contracts at Space and Naval Warfare Systems Command (SPAWAR) and SPAWAR System Centers,” July 7, 2010



## Appendix C. Summary of Potential Monetary Benefits

Recommendations	Type of Benefit	Amount of Benefit	Accounts
B.1	Funds put to better use from the FY 2009 Operation and Maintenance, Defense Health Program, appropriation.	\$92,523	97090130.1889
	Funds put to better use from the FY 2010 Operation and Maintenance, Defense Health Program, appropriation.	\$99,577	97100130.1889
B.2	Funds put to better use from the no-year DoD Medicare-Eligible Retiree Health Care Operation and Maintenance accrual funds.	\$317,995	97XX5472.18D9

# Office of the Assistant Secretary of Defense for Health Affairs Comments



## THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

22 Feb 12

### MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL, ACQUISITION AND CONTRACT MANAGEMENT

This is the Department of Defense (DoD) response to the DoD Inspector General (IG) draft report for Project Number D2011D000CF-0062.000, "Contractor-Invoiced Costs Were Accurate, but DoD Did Not Adequately Track Funding." Thank you for the opportunity to review the draft report and provide comments. I concur with the draft report's overall conclusion and findings. My response includes specific comments on the overall DoD IG's review findings and position. My specific responses to the three recommendations identified are provided in the attachment.

Please feel free to direct any comments to the Action Officers on this topic, [REDACTED] (Functional), or [REDACTED] (Audit Liaison). [REDACTED] may be reached at [REDACTED] and [REDACTED] may be reached at [REDACTED]

A handwritten signature in black ink, appearing to read "Jonathan Woodson", is centered below the contact information.

Jonathan Woodson M.D.

Attachment:  
As stated

**DOD IG DRAFT REPORT**  
**Project No. D201-D000CF-0062.000**

**“Contractor-Invoiced Costs Were Accurate, but DoD Did Not Adequately Track Funding”**

**OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)**  
**COMMENTS**

We recommend that the Director, TRICARE Management Activity, in coordination with the Director, U.S. Army Medical Research Acquisition Activity:

**RECOMMENDATION B.1:** Determine how much of the \$196,543 in Defense Health Program Operation and Maintenance funds \$94,547 in FY 2009 funds and \$101,996 in FY 2010 funds should remain on task order 6 for final indirect rate adjustments and deobligate the remaining funds. The TRICARE Management Activity should use the remaining expired funds for recording, adjusting, and liquidating obligations properly chargeable to the Operation and Maintenance funds or remit the funds to the Department of the Treasury.

**DOD RESPONSE:** Concur. Modification 13 was signed by USAMRAA on December 22, 2011 which resolves and realigns/de-obligates funding for FY 2009 and FY 2010 of the Apttis contract #W74V8H-04-D-0023-006. The contract was decreased by \$92,522.72 for FY 2009 funds and \$99,577.18 for FY 2010 funds for a total amount of \$192,099.90.

**RECOMMENDATION B2:** Determine how much of the \$325,346 in DoD Medicare-Eligible Retiree Health Care Funds \$158,931 obligated in FY 2009 and \$166,415 obligated in FY 2010 should remain on task order 6 for final indirect rate adjustment and de-obligate the remaining funds for future use.

**DOD RESPONSE:** Concur. Modification 13 was signed by USAMRAA on December 22, 2011 which resolves and realigns/de-obligates funding in FY 2009 and FY 2010 of the Apttis contract #W74V8H-04-D-0023-006. The contract was decreased by \$155,527.44 for FY 2009 funds and \$162,468.02 for FY 2010 funds for a total amount of \$317,995.46.

**RECOMMENDATION B3:** Establish guidance that delineates the roles and responsibilities of the funds holder and contracting activity in tracking funds.

**DOD RESPONSE:** Concur. TRICARE Management Activity has a Desktop Reference Guide located on the Acquisition & Management Support website which addresses the roles and responsibilities of the funds holder and contracting activity in tracking funds. This information has been shared with the Contracting Activity, USAMRAA. Below are the sections which would apply:

3.1.3 Certifying Officer. The Certifying Officer within the Financial Operations Division (FOD) of the TMA Resource Management (RM) Directorate certifies that adequate funding exists to cover the cost of a contract. Each Program Office receives annual funding of a specified amount. RM tracks the status of those accounts as funds are spent. Before an order for products or services is placed, the RM Certifying Officer must certify that the Program Office has enough money, of the correct type, available to make the purchase.

5.12 Cost Monitoring: When using cost reimbursement type contracts, the Government must monitor costs and funding. The COR should use all available information to anticipate both over-runs and under-burn. The COR must avoid formal or informal action that would lead a contractor to exceed the contract cost limitation. They should likewise remain vigilant of any potential under-burn that could free up resources that might be applied elsewhere within their program or within TMA.

5.12.1: FAR clause 52.232-20, Limitation of Cost and 52.232.22 Limitation of Funds require a contractor to give advance notice if they believe an overrun will occur. The notice must be given when the contractor has reason to believe that 75 percent of the funds available on the contract will have been expended in the next 60 days. Notice is also required if, at any time, the contractor has reason to believe the total cost of performance will substantially exceed, or be less than, the estimated cost. The contractor must provide a revised cost estimate with the notice. In addition to the above, the COR should immediately notify the KO in cases when an overrun seems likely. Communications from Government personnel should avoid any implications that might justify an assumption by the contractor that costs beyond the existing limitation may be incurred. All CORs should note that encouraging a contractor to continue work in the absence of funds may result in a violation of financial management statutes and may subject the COR to criminal penalties.

5.12.2: Towards the end of each and every period of performance, the COR should conduct a thorough assessment of funds remaining on the contract based on historical data and what the contractor is required to do prior to the end of the order. Any funds determined available for de-obligation should be immediately brought to the attention of the TMA FOD.

# United States Army Medical Command/Office of the Surgeon General Comments



ONLY TO  
ATTENTION OF

REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
HEADQUARTERS, UNITED STATES ARMY MEDICAL COMMAND  
2748 WORTH ROAD  
FORT SAM HOUSTON, TEXAS 78234-6000

06 FEB 2012

MCIR

MEMORANDUM FOR Department of Defense Inspector General, Acquisition and Contract Management, ATTN: [REDACTED] 4800 Mark Center Drive, Suite 13F25-04, Alexandria, VA 22350-1500

SUBJECT: Contractor-Invoiced Costs Were Accurate, but DOD Did Not Adequately Track Funding (Project No. D2011-D000CF-0062.000)

1. Thank for you the opportunity to review this report. Our comments are enclosed for your consideration.

2. Our point of contact is [REDACTED]

FOR THE COMMANDER:

Encl

*Herbert A. Coley*  
HERBERT A. COLEY  
Chief of Staff

**US Army Medical Command and Office of the Surgeon General**

**Comments on DODIG Draft Report Contractor-Invoiced Costs  
Were Accurate, but DOD Did Not Adequately Track Funding  
(Project No. D2011-D000CF-0062.000)**

**RECOMMENDATION B.1.:** The Director, TRICARE Management Activity (TMA), in coordination with the Director, U.S. Army Medical Research Acquisition Activity (USAMRAA), should determine how much of the \$196,543 in Defense Health Program Operation and Maintenance funds—\$94,547 in FY 09 funds and \$101,996 in FY 10 funds—should remain on task order 6 for final indirect rate adjustments and deobligate the remaining funds. TMA should use the remaining expired funds for recording, adjusting, and liquidating obligations properly chargeable to the Operation and Maintenance funds or remit the funds to the Department of the Treasury..

**RESPONSE:** Concur. Of the \$196,543 in Defense Health Program Operations and Maintenance funds considered for de-obligation, \$192,099.90 was de-obligated by modification 13 (attached); \$92,522.72 of FY 09 funds and \$99,577.18 of FY 10 funds. The amount remaining on task order 6 for final indirect rate adjustment is \$4,443.10.

**RECOMMENDATION B.2.:** The Director, TMA, in coordination with the Director, USAMRAA, should determine how much of the \$325,346 in DOD Medicare-Eligible Retiree Health Care Funds—\$158,931 obligated in FY 09 and \$166,415 obligated in FY 10—should remain on task order 6 for final indirect rate adjustment and deobligate the remaining funds for future use.

**RESPONSE:** Concur. DOD Medicare-Eligible Retiree Health Care funds are no-year funds, as denoted by the xxxx in characters three through six of the accounting classification, and are not delineated by fiscal year. Of the \$325,346 of this fund type considered for de-obligation, \$317,995.46 was de-obligated by modification 13. The amount remaining on the task order for final indirect rate adjustment is \$7,350.54.

**RECOMMENDATION B.3.:** The Director, TMA, in coordination with the Director, USAMRAA, should establish guidance that delineates the roles and responsibilities of the funds holder and contracting activity in tracking funds.

**RESPONSE:** Concur. TMA and USAMRAA discussed the roles and responsibilities of the funds holder and contracting activity and agreed to adhere to those outlined in the TMA Desktop Reference Guide ([http://www.tricare.mil/tma/ams/ams\\_desktop.aspx](http://www.tricare.mil/tma/ams/ams_desktop.aspx)). The Directors of USAMRAA and TMA will jointly sign and issue a memorandum specifying these roles and responsibilities by 29 February 2012.

Encl

Modification 13 is not included because it does not provide additional applicable information.





# Inspector General Department of Defense